



Memorandum

**TO: HONORABLE MAYOR AND
CITY COUNCIL**

FROM: Scott P. Johnson

SUBJECT: SEE BELOW

DATE: May 26, 2006

Approved

/s/

Date 05/26/06

SUBJECT: REPORT ON PROPOSALS TO INCREASE COLLECTION EFFORTS

RECOMMENDATION

1. Direct staff to return to Council in August 2006 with a specific delinquency collections plan and related budget augmentation actions in the range of \$750,000 as a temporary measure to focus on reducing the number of delinquent accounts owed to the City by funding temporary staffing, contract services, and non-personal costs.
2. Direct the Director of Finance to issue a Request for Proposal for various Collection Agency services.
3. Accept the Status Report on the Collection of Delinquent Accounts.

BACKGROUND

During the Budget Hearings for Strategic Support, staff was directed to bring forward a proposal for Council consideration on strategies to increase the City's collection efforts on delinquent accounts. Additionally, the Mayor's March 17, 2006 Budget Message requested that the City Manager report on the results of the City's strategy to collect on delinquent accounts, including ways to increase collection efforts through possible outsourcing to a company specializing in debt collections.

Proposals to Increase Collections of Delinquent Accounts

The City's total miscellaneous accounts receivables is currently approximately \$33 million, of which the average number of days outstanding is 74 days. Currently 5,473 of these accounts are delinquent (over 90 days from the billing date) with \$17.6 million owed to the City. To reduce the number of delinquent accounts, Finance is proposing the following actions:

➤ Budget Augmentation for Delinquency Collections

Staff is in the process of developing a plan to focus on the City's delinquent accounts receivable and plans to return to Council for approval of a budget augmentation in the range of \$750,000 as a temporary measure to focus on reducing the number of delinquent accounts

owed to the City. This augmentation would cover temporary staffing, contract services and non-personal costs.

The Delinquency management plan currently under development will be modeled after the plan adopted by the City/County of San Francisco. Staff will have more information on San Francisco's success in targeting their delinquencies when we return to Council in August. Based on the Finance Department's return on investment on similar collection efforts as outlined in Attachment A, staff estimates that the City may be able to recover between \$3.5 million and \$4.0 million on the City's delinquent accounts through this effort.

➤ Issuance of a Request for Proposals for Collection Agency Services

The City currently contracts with Professional Recovery Systems (PRS) and the Collection Bureau of San Jose (CBSJ) to provide collection services on delinquent accounts receivable assigned by the Finance Department. These contracts are set to expire on June 30, 2006. Finance is in the process of preparing a Request for Proposals (RFP), which prescribes an iterative approach for assigning delinquent accounts to collection agencies. In combination with a proposed Collection Agency Referral Fee submitted for Council's consideration in the 2006-07 City's Fees and Charges Ordinance, the Finance Department will assign a delinquent account to a collection agency for a specified period (6 or 8 weeks). The collection agency will receive a flat fee equivalent to the Collection Agency Referral Fee for the successful collection of the delinquent account. If the money owed is not collected within the specified timeframe, the account will be automatically assigned to a second collection agency, which will be compensated through a percent of money collected. Additionally, Finance is exploring the utilization of specialized collection agencies for various accounts receivables.

➤ Additional Proposals for Increasing Collection Efforts

Other enhancements to the City's collection efforts will be explored and submitted for Council's consideration at a later date. These items include, but are not limited to the following:

- Additional permanent staffing resources;
- Consultant services to develop a feasibility study and fit-gap analysis to define a scope of work with a plan to migrate the City's current outdated billing and collection systems to the City's new C-UBS billing system; and
- Additional information technology system applications for billing and collection efforts.

Report on Results of Current Collection Efforts.

Over the past several years, the Finance Department has strategically re-aligned the Revenue Management Division's work plan to reduce the level of delinquent accounts Citywide and has increased efforts to conduct fee and tax compliance reviews to assure the City is paid amounts due consistent with the City's Municipal Code and various contractual agreements.

This report describes the City's delinquency management and revenue compliance programs implemented through the Finance Department and provides an overview of collection results experienced from May 2005 through April 2006. The last update to this report covering collection efforts from July 2003 until April 2005 was presented as a Manager's Budget Addendum (MBA) to the City Council during the Fiscal Year 2005-2006 Budget Hearing.

Delinquency Management Programs

Accounts receivable invoices are generated for a variety of services provided by several different City departments. Ultimately, the Finance Department is responsible for the collection of all monies due the City. To this end, staff periodically evaluates outstanding amounts due, prioritizing for collection those accounts which are seriously delinquent and/or owe significant amounts for services provided. Follow-up on accounts prioritized for collection is completed by the Revenue Management Division's Investigator Collectors, who are trained to use an array of collection mechanisms. Individuals with outstanding amounts owed the City are notified by mail of the amount due. As a mean to provide flexible payment options to our customers who are unable to pay the full amount to the City, the City enters into payment plan arrangements. Further collection efforts include obtaining judgments through Small Claims or Superior Court and, use of a collection agency.

Attachment A provides a summary of revenue derived during the period and related costs yielding a "rate of return" to the City of \$11.47 for each dollar spent in the Finance Department's Delinquency Management Program. Listed below is a summary of these efforts.

➤ Seriously Delinquent Accounts Receivable Collections

For the reporting period of this memorandum, staff has collected approximately \$ 3.4 million in Citywide accounts receivable which were 180 days or more outstanding (seriously delinquent) at the time of collection. This strategy, aimed to reduce ageing accounts receivable which may otherwise be subject to future write-off, has proven to be very successful.

➤ Lien and Assessment Process

Certain citywide programs specifically identified by the San Jose Municipal Code allow the placement of liens and/or assessments on real property once all other efforts to collect amounts owed the City have been exhausted. Staff is currently using the lien/assessment process for the following programs:

- Sidewalk Repairs (Commercial and Rental Properties)	- Recycle Plus Refuse Billing
- Administrative Remedies (Penalties for non-compliance with code requirements)	- Abatements (Cost for actions taken by City to eliminate blight and/or unsafe conditions)

As part of the collection process, delinquency notices are sent to property owners receiving services for the above mentioned programs for amounts remaining unpaid for a defined

period of time. Outstanding amounts due after proper noticing are subjected to the lien/assessment process.

➤ Small Claims Court and Franchise Tax Board Intercept Program

As a last resort means to collect, staff works with both the City Attorney's Office and the Small Claims Court to obtain judgments for amounts due.

Upon receipt of a judgment, staff must work diligently to collect the amount due using all legal remedies. One legal remedy used by the City is the State of California Franchise Tax Board Interagency Intercept Collection Program (Intercept Program). This Program allows local agencies to collect delinquent amounts owed by intercepting State tax refunds.

Revenue Compliance Programs

To assure the City receives correct amounts of revenues owed the City for various tax and fee programs, the Finance Department manages a revenue compliance program. Objectives of the revenue compliance program include verifying amounts submitted to the City are correct and consistent with defined requirements in addition to providing education and outreach to entities with respect to proper collection and remittance of revenues.

Staff performing revenue compliance reviews understand the administrative requirements for specific programs and utilize auditing, reconciliation and technical skills to perform the reviews. Additionally, the City employs a revenue consultant to assist staff with certain complex regulatory programs.

➤ Business Information Management System (BIMS) Leads Project

The Business Information Management System (BIMS) compares various third-party independent business lead source data files (e.g. State of California Franchise Tax Board, State Resale Permits, Fictitious Business Filings, etc.) to the City's Business Tax Billing System to identify businesses not in compliance with the business tax ordinance. This project, which began in May 2003, is strategically aimed to provide education and outreach to City businesses while increasing overall compliance.

➤ Sales Tax Compliance Reviews

The City receives a specified share of the sales tax collected by the State for sales transactions conducted within the City of San Jose. The Finance Department manages a contract between the City and MBIA Municipal Services Company (MMC) to help assure the City receives the proper allocation of the sales tax from applicable businesses and the State. MMC is contracted by municipal jurisdictions throughout the State to assist with sales tax compliance. Services provided to the City by MMC complement the sales tax compliance activities performed by the City Auditor's office.

➤ Transient Occupancy Tax Compliance Reviews

A Transient Occupancy Tax (TOT) is levied on each transient guest staying at one of the City's many hotels, motels, and inns. The tax, which is currently set at 10% of the charge for the room only, benefits the City's General Fund (4%) and the City's Transient Occupancy Tax fund (6%).

➤ Utility User Tax Compliance Reviews

Utility User Taxes (UUTs) are imposed on users of electricity, gas, water, and telephone usage. The tax is currently 5% of the amount due for usage of the above referenced services. To date, compliance reviews of electricity, gas and land-line phone usage have been conducted. During the 2005-06 fiscal year, staff has been focusing primarily on UUT compliance as it relates to cell phone usage while assisting the City with collection of several outstanding compliance reviews previously completed.

➤ Disposal Facility Tax/Solid Waste Enforcement Fee Compliance Reviews

The City collects Disposal Facility Taxes (DFT) and Solid Waste Enforcement Fees (SWEF) from each of the four primary landfills operated within the City limits. These taxes/fees are levied based on the tonnage of waste brought into the landfills by both commercial and private haulers. The Revenue Management Division conducts periodic compliance reviews of each landfill to assure proper calculation and collection of both the DFT and SWEF. Staff in Finance works closely with the Department of Environmental Services and the City's Local Enforcement Agency on these compliance efforts.

➤ Towing Franchise Compliance Reviews

The City administers contracts with five towing agencies to provide citywide towing services as required. Payment terms to the City are outlined in each contract. The Finance Department, working closely with the Department of Planning, Building and Code Enforcement, conducts annual compliance reviews of each towing agency.

CONCLUSION

The Finance Department's Revenue Management Division is responsible for the everyday collection and process of various Citywide revenue streams as noted above. There are several strategic programs currently being utilized to both increase collections of amounts due the City and increase overall revenues. During the period of May 2005 through April 2006, the Department's pro-active efforts have generated over \$5.9 million in additional revenue at a cost of \$816 thousand yielding a rate of return on the City's investment of \$7.25 for each dollar spent on these efforts.

/s/

SCOTT P. JOHNSON
Director, Finance

Finance Department Delinquency Management and Compliance Review Efforts

PROGRAM	May 2005 – April 2006		
	Additional Revenue / Cash Flow	Staff / Consultant Cost	\$ Generated / Total Cost
<i>Delinquency Management Programs:</i>			
Seriously Delinquent Accounts Receivable Collections	\$3,395,682	\$158,202	\$21.46
Lien / Assessment Collection Processes	\$645,581	\$138,269	\$4.67
Small Claims Court and Franchise Tax Board Intercept Program	\$29,775	\$58,593	\$0.51
<i>Total – Delinquency Management Programs</i>	<i>\$4,071,038</i>	<i>\$355,064</i>	<i>\$11.47</i>
<i>Revenue Compliance Programs:</i>			
Business Tax Lead Identification (BIMS)	\$892,603	\$110,151	\$8.10
Sales Tax Compliance Reviews	\$349,611	\$82,089	\$4.26
Transient Occupancy Tax Compliance Reviews	\$3,370	\$1,376	\$2.45
Utility User Tax Compliance Reviews (Includes ECSS)	\$357,924	\$139,339	\$2.57
Disposal Facility Tax / Solid Waste Enforcement Fee Compliance Reviews	\$212,124	\$118,587	\$1.79
Towing Franchise Compliance Reviews	\$29,291	\$8,947	\$3.27
<i>Total – Revenue Compliance Programs</i>	<i>\$1,844,923</i>	<i>\$460,489</i>	<i>\$4.01</i>
<i>TOTAL:</i>	<i>\$5,915,961</i>	<i>\$815,553</i>	<i>\$7.25</i>